

# **SPENDING AFFORDABILITY ADVISORY COMMITTEE REPORT**



**Fiscal Year 2017**

# **Spending Affordability Advisory Committee**

Steve W. Sachs, Chair of the Spending Affordability Committee

## **Citizen Committee Members**

Lorenzo D. Ascoli  
Nina Basu  
Andrew E. Clark  
Richard Clinch Ph.D.  
Ryan Frederic  
Ellen Flynn Giles, Howard County Board of Education  
Bruce Harvey  
Steve Hunt  
Jim Hyatt  
Barbara Lawson  
Larry Letow  
Milton Matthews, Columbia Association  
Leonardo McClarty, Howard County Chamber of Commerce  
Dwight Mikulis  
Steve Poynot  
Sue Song  
Joshua Tzucker  
Edward L. Waddell, CPA  
James Young, Howard County General Hospital

## **Government Officials**

Lynn Coleman, Howard Community College  
Caitlin Connors, Internal Auditor  
Beverly Davis, Howard County Public School System  
Craig Glendenning, Howard County Auditor  
Valerie Gross, Howard County Library System  
Stanley Milesky, Director, Department of Finance  
Lonnie R. Robbins, Chief Administrative Officer  
Jahantab Siddiqui, Deputy Chief of Staff, Office of the County Executive  
Holly Sun, Budget Administrator  
Larry Twele, Howard County Economic Development Authority

**Howard County Maryland  
Spending Affordability  
Advisory Committee  
Report for Fiscal Year 2017**

**March 2016**

**Purpose**

County Executive Allan Kittleman renewed the Spending Affordability Advisory Committee (the “Committee”) through Executive Order in December 2015. His charge to the committee was to:

1. Review in detail the status and projections of revenues and expenditures for the county, not only for fiscal year 2017, but also for fiscal years 2018-2021.
2. Evaluate future county revenue levels and consider the impact of economic indicators such as changes in personal income, assessable base growth, and other data that the Committee considers applicable.
3. Evaluate expenditure levels with consideration of the long-term obligations facing the county, and the best way to pay for them.

The Committee shall present to the County Executive a report including:

- a. Projections of revenue for the upcoming fiscal year
- b. A recommended level of new county debt authorization
- c. The anticipated effect of the committee’s budget recommendations on future budgets
- d. Other findings and/or recommendations that the committee deems appropriate

The Committee met six times in January and February 2016. During that time, the Committee listened to and discussed presentations from economists, county agencies, and local educational institutions. The purpose of these discussions was to address the County's economic and revenue outlook, debt affordability, economic development, long-term planning, and operating and capital needs. This report presents findings and options that potentially help address the fiscal challenges the County faces today and in the foreseeable future. We would like to thank all the Committee members for their time and effort in participating on this Committee, providing insight and thoughtful ideas that will help continue to move this County forward. We also want to thank all of the presenters who shared valuable information and analysis with the Committee.

This report has two parts. The first summarizes all major findings and recommendations of the Committee. The second part provides detailed background information on the economic and revenue outlook, debt indicators, and the County's multi-year projection.

## **I. SUMMARY OF FINDINGS AND RECOMMENDATIONS**

The Committee was tasked with making recommendations on revenue projections, the debt ceiling, and long-term fiscal conditions, while providing other observations and recommendations, as appropriate. These are listed below.

### **1. Projections of Revenue for the Upcoming Fiscal Year**

**FY 2017 projected revenue is \$1.05 billion, an increase of 3.2% (\$32.7 million) over the approved FY2016 budget (excluding use of fund balance).** The County is required by law to adopt a balanced budget. Unless additional revenues are realized or created, the Committee believes that spending must stay within that amount. The Committee believes that it is imperative that the County deliberately consider a range of revenue and expenditure options in order to position itself for a period of moderate revenue growth. The County also needs to monitor revenues closely, and make necessary expenditure adjustments swiftly.

While the projection going into FY 2017 represents some recovery from last year, the Committee urges the County to be cautiously optimistic in forecasting revenues. Overall, there are signs of a moderate recovery and we urge the government to plan based on this understanding.

### **2. A Recommended Level of New County Debt Authorization**

**The Committee recommends limiting authorized new General Obligation bonds in FY 2017 to \$85 million.** Last year, the Committee recommended lowering the authorization limit to \$90 million from the \$120 million high in order to prevent the debt from hitting or surpassing the 10% policy ceiling. The Committee believes that further lowering the authorization to \$85 million in FY 2017 and maintaining a relatively low level of debt ceiling in the next few years are important to ensure the County's AAA bond rating, and keep the County's overall debt burden at a reasonable level. This will also help avoid the growth of CIP-related operating expenses taking away resources that otherwise could be available to support other priorities identified in the operating budget. It is important to remember that the impact of CIP projects on operating budgets includes not only debt service payments but also the costs to staff, operate and maintain each new CIP project.

Moreover, the County currently has \$381 million in authorized, but unissued, General Obligation bonds that continue to obligate future debt capacity of the County. The Committee recommends that the County conduct a thorough review of existing authorized bonds to determine whether some can be closed to open up some of that debt capacity and align the long-term plan with authorizations. The Committee also encourages the County to develop realistic longer-term debt affordability models.

### 3. The Anticipated Effect of The Committee's Budget Recommendations on Future Budgets

A multi-year revenue and expenditure model developed by the Budget Office indicates that **County General Fund revenues will likely show a growth of 3.6% per year on average over the four years beyond FY 2017**. The County must budget to spend within its means during this period. The Committee suggests that the County develop a multi-year fiscal plan that strategically balances service needs and resources to build a sound fiscal structure that supports our priorities.

The economy continues to recover, and the County will likely experience steady, yet moderate revenue growth over the coming years. It is important for community leaders and the government to understand and craft policies based on this forecasted slower growth.

### 4. Other Findings and/or Recommendations that the Committee Deems Appropriate

#### Revenue Options

- **Ambulance/EMS Fee:** Last year, the Committee recommended exploring the option of implementing an ambulance fee for use of Howard County EMT and Transportation Service to area hospitals. Other counties, including Montgomery, Prince George's, Anne Arundel, and Baltimore already collect such fees. The cost, which is typically reimbursable through insurance carriers, could support the increasing operating expenses and potential CIP projects in the Fire Department. Concerns were expressed by the Fire Chief, however, primarily related to the affordability issue for the most vulnerable in our community as well as a potential perception of "double taxation" because unlike most jurisdictions, the County already implements a designated Fire Tax at 17.6 cents per \$100 of assessed property value to cover various Fire and EMS services. The Committee recommends that a task force be created to further explore this option and the economic and legal implications. The task force will ideally be comprised of various local leaders in the medical fields, non-profit organizations, particularly those who interface with vulnerable populations, as well as government officials in order to truly understand the impact of implementing such a fee and how to address any concerns.
- **Storm Water Remediation Fee:** The Committee recommends that the County not remove the Storm Water Remediation Fee prior to the establishment of an alternative fee structure. Development of such a structure should more fairly balance the impact on commercial and residential taxpayers and consider the establishment of a property tax percentage cap to address the regressive nature of this fee on commercial properties. Additionally, we recommend that elected officials educate the communities and tax payers on this issue, so that people understand that this is essentially a Federal mandate that must be funded through state and local policies. As part of being in the Chesapeake Bay watershed, the County has to submit and execute a watershed implementation plan that has a significant cost. The County does not have a choice regarding whether to implement a plan or not. The financial issue is how to fund it and what are the implications of different funding options on different groups of taxpayers. Making such clarifications, conducting relevant studies, communicating results with the communities should help to provide clarity on this issue. Some facts are listed below for reference:

*In 2010, the U.S. Environmental Protection Agency established the Total Maximum Daily Load for the Chesapeake Bay that set the maximum amount of pollution the bay can receive and still maintain water quality standards. This was in response to the continued decline of the health of the bay and declining natural areas that surrounds the bay due to the pollution of stormwater runoff. Stormwater runoff is simply the water that flows on impervious surfaces such as streets, buildings, rooftops, that*

*picks up pollutants such as vehicle fluids, pesticide, fertilizer, and other pollutants that run off into waterways without being filtered as it would if were to be absorbed through the ground.*

*Also in 2010, the Bay jurisdictions submitted Phase I of the Watershed Implementation Plan that detailed how each jurisdiction would achieve its pollution reduction goals. In 2012, the State submitted to the EPA its Phase II Watershed Implementation Plan. During this period, the Maryland Department of the Environment began investigating possible costs and revenue generating options for the local jurisdictions. In the 2012 Session, the General Assembly passed the Watershed Protection and Restoration Program, legislation that outlined State requirements and directed the ten largest and most urban jurisdictions in the State to set fees to address the pollution and comply with federal mandates. The fees are specifically earmarked for use of the program to implement and maintain stormwater structures that reduce the flow and introduction of pollutants into local waterways. Thus, the Watershed Protection Fee was established.*

*In 2015, the State repealed the mandate requiring the ten jurisdictions to establish the Watershed Protection Fee. However, while this requirement was lifted, local jurisdictions are still required to comply with State and Federal requirements. Local jurisdictions are left with the decision to continue charging the fee or find other means to fund the program.*

- **Transfer Tax:** The Committee is also recommending that the County review its allocation formula for the current 1% Transfer Tax every four years in order to determine whether any adjustments are needed to better meet service needs. For example, cash flow models from the Finance Department indicate potential surplus funds in the Agricultural Preservation Fund several years later. An opportunity to change the formula or make one time transfers at that time would permit the application of surplus funds in the Agricultural Preservation Fund to address the Storm Water Remediation obligations. The Committee strongly believes that this recommendation must be institutionalized and will require the County to request the State Delegation to submit legislation. The Committee also recognizes that any reallocation of the existing formula would also require amendment by the State Legislature.

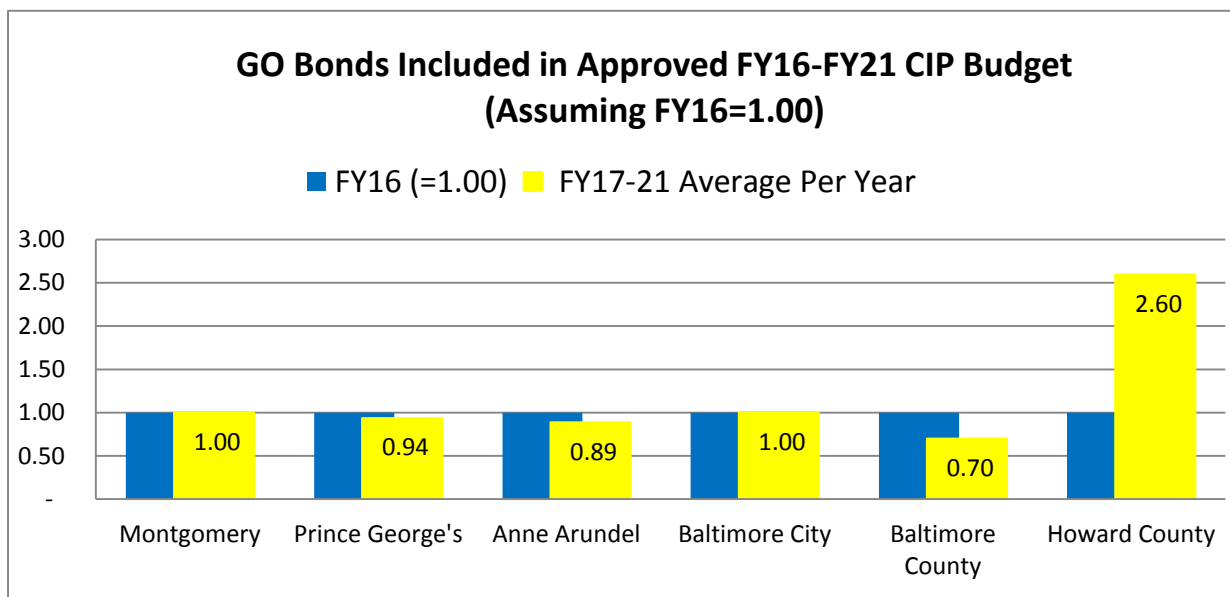
#### Expenditure Control Options

- **Maintenance of Effort (MOE) Contribution:** The school system's MOE increase is \$10.9 million in FY 2017. As indicated in last year's committee report, while the County has been able to fund in excess of the MOE amount in certain years, it has no obligation to fund over that amount. The County should make decisions based on overall funding affordability and ensure funding mandated and committed growth while supporting priorities.
- **Other Post Employment Benefit (OPEB) Contribution beyond PAYGO:** The Committee recommends that the County gradually resume its multi-year phase-in plan towards fully funding OPEB liabilities and resist the temptation to reallocate funding from meeting this obligation towards other operating needs. Steering away from the incremental funding plan could significantly impact the current discount rate and increase the overall cost of covering the OPEB liabilities. Also, it will hurt the interest of teachers of the school system because 66% of OPEB funding is obligated for retiree health benefits of Howard County teachers.
- **Use of Fund Balance:** Last year, the Committee recommended that the County Executive consider implementing more restrictive policies on using prior year fund balances. The Committee is again recommending that the County not use more than 50% of the prior year unassigned fund balance in the

upcoming fiscal year. The purpose of restricting these funds is to prepare for potential swings in revenues and help minimize the volatility in PAYGO funding in capital projects.

### Long-term Sustainability

- **CIP Multi-Year Planning:** A major concern of the Committee was the County’s unrealistic multi-year CIP budget plan. The Committee recommends that the County abolish its practice over the past decade of significantly overestimating CIP funding in the years beyond the upcoming fiscal year. Below is an example of FY 2016-2021 CIP budget across neighboring jurisdictions. On average, Howard County budgets over 2.6 times its current fiscal year’s CIP budget in future years. Other counties tend to either level-fund their CIP budgets in the future, or project future budgets just below the current fiscal year’s budget. Our practice does not establish a realistic CIP plan for the County in future years. It also hinders the ability of the County to monitor and accurately project CIP budgets and those projects’ associated impact on operating budgets. The Committee, as part of its recommendations in this report, would like to review and discuss a more responsible multi-year plan.



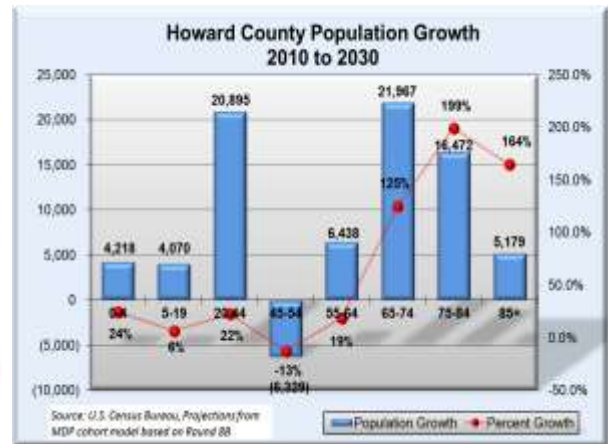
- **Revenue/Expenditure Multi-Year Projections:** As with the CIP budget, the Committee recommends that the County maintain and enhance its internal multi-year projections on its operating budget and develop a multi-year fiscal plan. The Committee would like to see more of an emphasis on the County providing forecasts to determine potential impact on the General Fund, fund balances, and operating expenditure trends in order to identify potential shortfalls in future years and understand the implications of today’s policy decisions on the future. Identifying these potential issues early will allow the County to monitor, plan, and budget responsibly in order to eliminate potential future issues. In addition, it helps prioritize resources to help support strategic priorities and achieve targeted policy results.
- **Demographic and Economic Trends and County Impact:** In developing its recommendations for continued caution in both operating revenue and spending projections and debt authorization in FY 2017 and beyond the Committee took note of three recent demographic and economic trends that can be expected to impact near term and long term fiscal conditions:
  - Aging of the County’s Population -- The Committee recommends that the County continue studying the aging population in the County and this trend’s potential impact on both future County revenues

and future service demands. Information from the U.S. Census Bureau states that by 2030, one in five Americans will be 65 years or older and by 2050 the older population will double the current older population. Maryland Department of Planning projections of County population indicate that while other age groups will likely experience only limited growth in next three decades, those at or above 65 year old will more than double in this period. The Department of Citizen Services' report "Creating an Age-Friendly Community" also states that the aged population in the County will double from 2010 to 2025 and many adults are beginning to age in place.

**Howard County Population by Age, 1970-2030**

Age	1970	1980	1990	2000	2010	2020	2030
0-4	5,702	8,224	15,352	18,248	17,363	19,768	21,581
5-19	19,961	31,791	37,275	55,837	63,360	65,664	67,430
20-44	21,894	52,064	88,243	96,212	92,961	106,471	113,856
45-64	11,027	20,412	35,128	59,077	84,356	90,752	84,485
65+	3,327	6,061	11,330	18,468	29,045	50,094	72,663
<b>TOTAL</b>	<b>61,911</b>	<b>118,572</b>	<b>187,328</b>	<b>247,842</b>	<b>287,085</b>	<b>332,749</b>	<b>359,995</b>
0-4	9.2%	6.9%	8.2%	7.4%	6.0%	5.9%	6.0%
5-19	32.2%	26.8%	19.9%	22.5%	22.1%	19.7%	18.7%
20-44	35.4%	43.9%	47.1%	38.8%	32.4%	32.0%	31.6%
45-64	17.8%	17.2%	18.8%	23.8%	29.4%	27.3%	23.5%
65+	5.4%	5.1%	6.0%	7.5%	10.1%	15.1%	20.2%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: U.S. Census Bureau, Projections from MDP based on Round 88



- Changing Development Patterns – Recent changes in patterns of development activity, most importantly the increasing share of recent and planned residential development activity occurring in both attached and multi-unit housing in contrast to past development of single family detached housing, can be expected to impact future County revenue growth. These denser patterns of residential development can be expected to generate slower growth in overall County personal income and resulting income tax revenues than past patterns of development activity while yielding similar demands for core government services.
- Slowdown in Employment Growth – While Howard County has experienced among the fastest rates of employment growth both before and after the recent Great Recession, County employment growth has slowed in the past two years, especially in the core Professional and Technical Services sector that has been driving the creation of high skilled, high wage jobs in the County. While there is a general consensus that the worst of the impacts of declining federal spending are past, the State and Region's, and therefore, the County's employment growth is projected to be slower in the near term than pre-recession levels.

Taken together, these three demographic and economic trends can be expected to support slower growth in County personal incomes and resulting tax revenues than occurred in the pre-recession years. As a result, continued caution is urged in projecting future revenue and spending growth.

#### Other / Innovative Approaches

- **Fund/Agency Restructuring:** Last year, the Committee recommended that the County explore options in restructuring agencies in order to drive efficiency and control spending. Pending legislation, the Department of Citizen Services is restructuring and incorporating a significant portion of the Department of Housing and Community Development. In doing so, the County is taking a "No Wrong Door" approach, providing residents a single point of entry to receive benefits and services more efficiently. The Committee is recommending that the County continue to explore possible options for restructuring.



- **Partnership / Commercial Base Development:** The Committee recommends that the County, in cooperation with the Economic Development Authority, continue to aggressively pursue new business and employees in the technology and commercial businesses. As further discussed below, the County's commercial base continues to grow above the State average. The County should continue to seek opportunities to leverage resources to attract businesses, increase support for entrepreneurship, innovation, and small business programs to diversify the employment base.
- **IT Investment for Efficiency & Productivity:** Last year the Committee recommended that the County pursue the integration of the SAP technology across County operations. The Committee is further recommending that the County continue its efforts to invest and incorporate new technologies in order to further enhance efficiency.

## II. DETAILS / BACKGROUND

### 1. Economic Outlook

The Howard County Budget Office retained Richard Clinch, PhD, Director of the Jacob Finance Institute at the University of Baltimore, to prepare a County personal income projection through Fiscal Year 2019 and a report on overall national, state and regional economic trends and their expected impact on the County's economy and government finances. Dr. Clinch reported the following key findings to the County's Spending Affordability Committee:

#### National Economy

- The national recovery continued at its slow pace in 2015, with volatile growth in real Gross Domestic Product (GDP) but continued gains in employment. Real GDP increased at an annual rate of 0.7 percent in the fourth quarter of 2015, down from 2.0 percent in the third quarter and 3.9 percent annual growth in the second quarter. The nation added 292,000 jobs in December and the unemployment rate ended the year at 5.0 percent, down from 5.7 percent in January.
- According to Moody's Economy.com, U.S. real GDP is projected to grow by 3.2% in 2016, by 3.2% in 2017 and slow to 2.6% in 2018, with the Maryland Board of Revenue Estimates (BRE) forecasting generally slower growth in real GDP of 2.7% in 2016, 3.0% in 2017, and 2.7% in 2018;
- According to Moody's Economy.com, U.S. employment is projected to grow by 1.9% in 2016, by 2.2% in 2017 and by 1.9% in 2018 with the Maryland Board of Revenue Estimates forecasting generally slower employment growth of 1.6%, 1.3% and 1.3% respectively;
- While the magnitude of the two sources of forecast differs, both Moody's Economy.com and the Maryland BRE anticipate a continuous gradual improvement of the national economy.

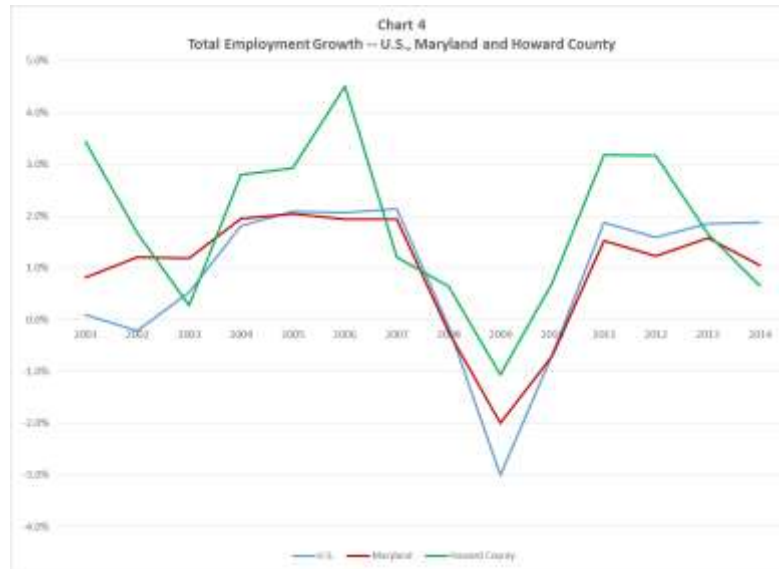
#### State Economy

- Maryland's reliance on federal spending continues to be a drag on the State's economic performance with the State ranked 35<sup>th</sup> nationally in non-farm employment growth since 2009 and 39<sup>th</sup> in growth of Gross State Product (GSP) over the same period. Maryland's unemployment rate ended 2015 above the national average for the last three months of the year, exceeding the national rate for the first time in more than a decade.
- While Maryland's economic recovery is expected to continue, slow growth in GSP, personal income and employment is projected to continue for the next several years. Both the Maryland Board of Revenue Estimates and Moody's Economy.com are predicting a continued slow recovery, with Maryland's growth continuing to lag improving national conditions.
- Each organization has made the following forecasts:
  - The Board of Revenue Estimates forecasts State employment growth of 1.5% in 2015, 1.3% in 2016, 1.0% in 2017, and 0.8% in 2018. The Board of Revenue Estimates forecasts Maryland personal income to increase by 4.2% in 2015, 4.6% in 2016, 5.1% in 2017 and 4.5% in 2018.

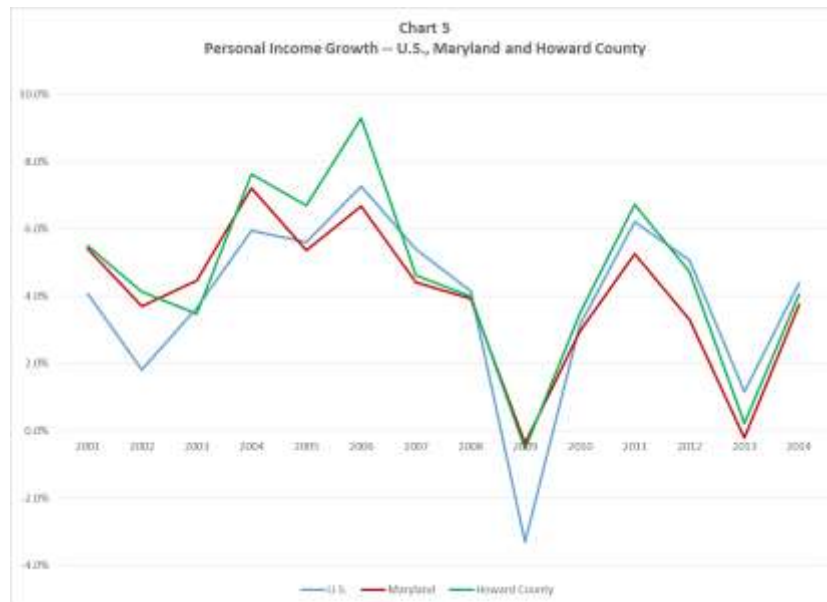
- Moody's Economy.com predicts stronger growth in Maryland and forecasts that State employment will increase by 1.6% in 2015, by 1.7% in 2016 and 2017, and by 1.4% in 2018 with personal income growth of 4.3%, 6.2%, 6.6% and 6.0% respectively.

### Howard County Economy

- The County has outperformed the nation and the state in terms of economic, employment and population growth over the past decade. While overall employment fell with the recession, the County's employment base had fully recovered by 2011 and the County actually added jobs in the high wage professional services, education, and health care sectors since 2007. Howard County leads the State in private sector jobs creation. However, employment growth slowed in both 2013 and 2014, and the County actually lost employment in its core professional and technical services sector in the last two years;



- Federal employment and spending, especially BRAC and Cyber related activities at Fort Meade, have been a significant driver of the County economy. There is considerable uncertainty about future trends in federal employment and spending at the national, state and local level. However, there is general consensus that the worst of the cuts appear to be over and federal spending will be less of a drag on the national and local economy. Clearly in this period of economic uncertainty the County needs to be cautious in its projections for future economic activity; and
- County personal income is projected to grow by 4.2% in FY2015, 4.7% in FY2016, 5.3% in FY2017, 5.4% in FY2018 and by 5.0% in FY2019. On an annual basis, County personal income is projected to grow by 4.4% in 2015, 5.0% in 2016, 5.6% in 2017, 5.3% in 2018 and by 4.6% in 2019.



## 2. Revenue Outlook

Howard County's General Fund revenues continue to rely primarily on property (50%) and incomes (40%) taxes. In FY 2016, 90% of the General Fund revenue is derived from these two taxes. Furthermore, 96% of the General Fund revenue growth during the past six years can be attributed to these two sources. Total General Fund revenues are projected to experience a growth of **3.2%** between FY 2016 and FY 2017 budgets.

### Property Taxes and Income Taxes Represent 90% of General Fund Revenues



FY 2016 General Fund (not including one time funds)

4

Property Taxes are projected to continue the growth momentum of 3.3% in FY 2017 (over the FY 2016 estimated level). County real property reassessment growth in 2016 for group 1 is 9% before three-year phase-in, representing a slowdown from the reassessment growth of 10.5% for group 3 in 2015. This growth rate is once again lower than the State average of 9.5%. For two years in a row, County reassessment has lagged behind the State's average; before that, Howard County's reassessment growth consistently exceeded the statewide average. The County's commercial base reassessment growth continues to exceed residential reassessment with a growth of 16.5% in FY 2016, and has experienced double-digit growth four years in a row, proving a significant driver of the overall annual assessment growth of this County.

The County's net real property tax growth continues to benefit from diminishing unrealized revenues from those assessments subject to the homestead tax credit. As in past years, new construction will likely contribute to minor growth in total real property taxes each year. Personal property taxes also are projected to maintain minor growth each year, aligning with the gradual improvement of the economy.



Income Taxes are expected to show some recovery from the weak performance in FY 2015 with a projected 4.2% growth in FY 2017 from the estimated FY 2016 level. Per Dr. Clinch, the projected growth can be attributed to continued growth in population, employment, and wages. The County currently has one of the highest levels of median household income in the nation and has experienced the highest levels of employment growth in the State post-recession. However, recent employment growth has slowed, and the County's important business and professional services sector experienced slight job losses in the past two years. While the County's growing employment base, educated population, and largescale development opportunities are expected to outperform the State's growth, the County should be cautiously optimistic when preparing future economic and fiscal plans.

Income tax totals also will be negatively impacted by the impact of the Wynne case, in both one-time historical liabilities and on-going loss of revenues. According to latest information from the State Comptroller's Office (January 2016), the County is looking at historical liabilities of \$3.5 million based on processed and approved cases. In addition, the County will not receive \$700,000 ~ \$1.5 million per year from tax payers filling tax return applications based on Wynne case results.

Other revenues are projected to either stay relatively flat or experience minor growth. Overall, taxes such as Recordation, Hotel/Motel, Transfer Tax, et al., will grow at approximately 2.7%. The Governor's FY 2017 proposed budget increased State Aid to the County by 5.7% over FY 2016. The Governor's budget proposes to fully fund education including the Geographic Cost of Education Index. Last year's State budget did not fully fund education, causing a gap of approximately \$6.6 million in school funding for the County.

### 3. Debt Indicators

In order to determine Howard County's relative debt position, the Committee in past years has evaluated Howard County's debt based on measures used and published by Moody's Investor Service and International City/County Management Association publications. Four measures have been used to evaluate the County's debt burden and debt affordability:

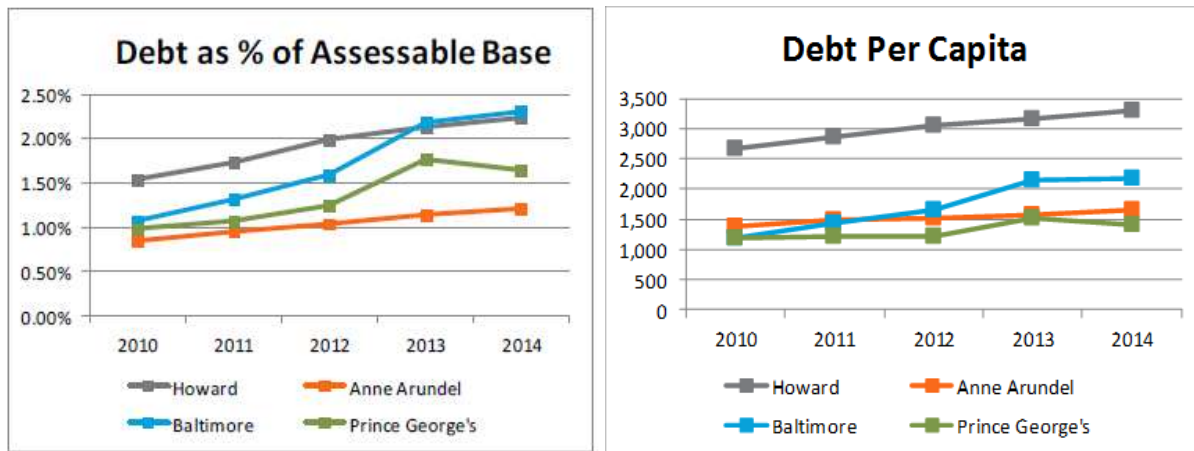
- Debt measured as a percent of the county's assessable base. The current County charter limit is set at 4.8 percent of assessed value.

- Debt measured against the population on a per capita basis. Per capita debt exceeding \$1,200 (unadjusted for inflation over the past 10 years) may be considered excessive by rating agencies.
- Per capita debt measured as a percent of the jurisdiction's per capita personal income. This measure should not exceed 10 percent in the view of many analysts.
- Debt Service as a percent of current revenues. This is the most important debt indicator among the four listed. Ten percent or below is considered an appropriate level, with 15 percent and above regarded a danger point.

The latest values of these four debt indicators are listed below with projected values for future years including critical indicators. (Note: The previous year's measures are shown in brackets [ ]).

### Measure #1: Debt as a Percent of the Assessable Base

As of June 30, 2015 [2014], Howard County had an assessable base of **\$45,731,165,307** [\$44,552,141,271] and a General Obligation (GO) Debt of **\$1,072,649,000** [\$996,897,000]. This means that the ratio of debt to base was **2.34%** [2.23%] of assessed value versus the 4.8% limit. Preliminary projections indicate that this measure will remain relatively low in coming years.

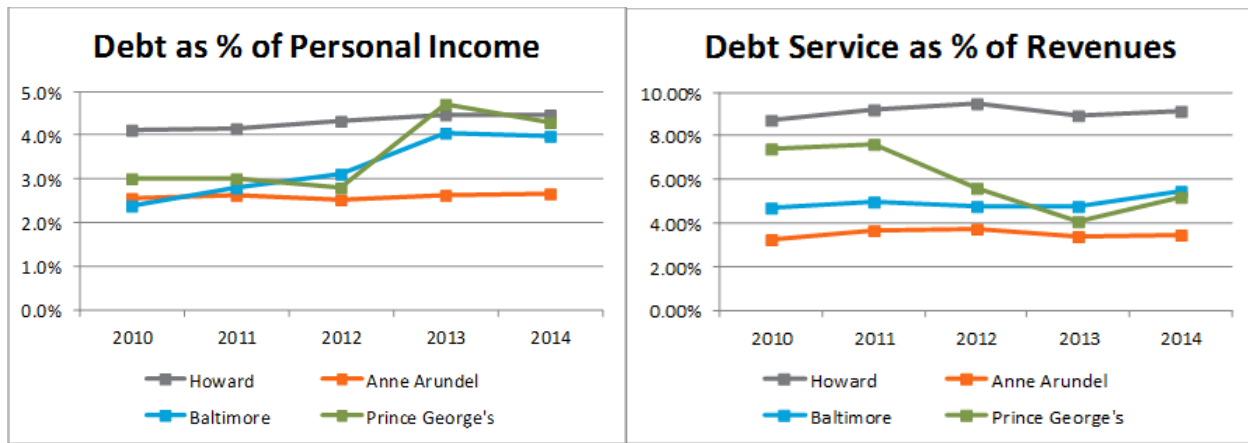


### Measure #2: Debt measured against the population on a per-capita basis.

As of June 30, 2015 [2014], Howard County had a population of **305,462** [302,113] and a General Obligation Debt of **\$1,072,649,000** [\$996,897,000] generating a per-capita debt of **\$3,511** [\$3,330].

### Measure #3: Per-capita debt measured as a percent of per-capita income.

For 2014[2013], Howard County residents had an estimated per-capita personal income of **\$74,151** [\$70,786] and a per-capita debt of **\$3,300** [\$3,197] equaling a per-capita debt of **4.5%** [4.5%] of per-capita income.

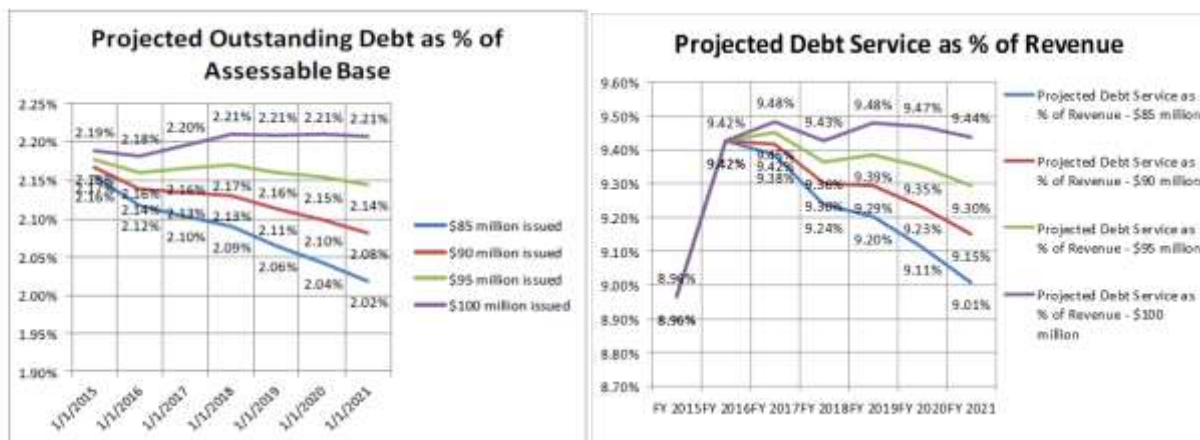


#### Measure #4: Debt Service as a percent of current revenues.

In FY 2015 [2014], the County received **\$1,118,358,147** [\$1,065,543,868] in revenues from the General Fund, Fire and Rescue Fund, and Environmental Service Fund and paid debt service of **\$98,891,682** [\$97,553,138]. Thus, debt service equaled **8.84%** [9.15%] of current revenues. This debt indicator is the most important measure of the four, indicating not only debt affordability but also the ability of the General Fund to support other strategic priorities (after dedicating resources to debt obligations). It is also a measure of concern because of the existing \$381 million authorized but not issued GO bonds, the majority will likely be issued in the next few years. In addition, new bond authorizations in FY 2017 and beyond will likely transfer to more debt services in the future. With the existing and future debt issuance and a moderate revenue growth, debt service payments as a percentage of revenues will likely increase continuously.

#### Committee Recommendation: Keeping Bond Authorization at Affordable Level

Reviewing these four debt indicators in comparison to other big counties based on a recent study by the Finance Department indicates that Howard County is at the top or near the top in all of four measures compared to our peers. The measures provided by the four debt indicators support the Committee's recommendation to lower the debt limit. Last year, the County, with the recommendation from this Committee, began curtailing the issuance of debt after years of high levels of borrowing. The Committee recommends continuing to tighten debt issuance, fund affordable debt instead of desirable projects, and review and cancel debt that is no longer relevant, in order to not only maintain but also reduce the overall debt burden indicators.



#### **4. Multi-Year Projections**

The County's budget office developed multi-year projections based on historical trends and anticipated drivers of revenue growth and expenditures. Preliminary projections show that General Fund revenue growth during FY 2017 will be 3.2% over the FY 2016 budgeted level, and continue a moderate growth of 3.6% per year during the FY 2018~FY 2021 period. Such levels of growth are regarded as solid but lower than what the County had enjoyed in the past.

The Committee continues to be concerned that a moderate level of revenue growth may not meet the expenditure demands or expectations of the communities. Major cost drivers include education needs, growth in compensation and fringe benefits for employees, debt service and the operating impacts of capital projects, and other service demands from the communities. It is imperative that the County work with key stakeholders to live within its means while still supporting critical services and strategic priorities that benefit the County in the long run. It is also important for the government to seek the right balance between the desire to raise more revenues to meet service needs and the needs to maintain an adequate level of tax burden on its individual tax payers and businesses to support the County's attractiveness and competitiveness for continued growth. Moreover, since the major issue is not the funding level but the gap between the growth rate of funding and the growth rate of expected or demanded expenditures, major efforts need to be focused on how to achieve the best possible results with tax payers' money since the funding growth will likely be solid but limited for many years.

As in all models, the multi-year projection scenarios listed are based on a set of assumptions that could change when new information becomes available or the impact of changes in policy are considered. Nevertheless, this modelling provides a tool useful in identifying the affordable level of growth and understanding the implications of different scenarios.

Details of the multi-year revenue projections and one of the many possible expenditure scenarios that match the projected revenue growth are shown below.

##### **Howard County Revenue/Expenditure Growth Projection Model**

The County's Budget Office develops multi-year projections for its General Fund. The following model shows updated FY 2015 actuals and FY 2016 revenue projections as of February 2016. It also includes preliminary revenue projections for five years beyond FY 2016. On the expenditure side, there are multiple potential expenditure scenarios that could fit the revenue projections. What is shown in the table below, for illustration purpose, is just one of the many expenditure options that are affordable based on projected revenue level.



General Fund Multi-Year Projections (\$ in thousands)

	Actual	Budget	Estimated	Projections				
	FY15	FY16	FY16	FY17	FY18	FY19	FY20	FY21
Property Taxes	476,160	490,707	495,078	511,434	528,600	547,200	566,352	586,174
Income Taxes	394,985	407,367	410,738	428,067	446,474	465,672	485,696	506,581
Other Local Taxes	30,423	29,682	31,484	32,338	32,985	33,645	34,318	35,004
State Shared Taxes	1,532	1,532	1,532	1,606	1,638	1,671	1,704	1,738
Charges for Svcs./Other	26,715	26,919	26,982	27,521	27,931	28,348	28,772	29,203
Investments/Property Sales/Transfers	43,480	55,649	51,245	43,595	44,389	45,204	46,039	46,896
Prior Year Funds	39,770	450	450	4,214	3,000	3,000	3,000	3,000
<b>Total Revenues</b>	<b>1,013,065</b>	<b>1,012,304</b>	<b>1,017,509</b>	<b>1,048,775</b>	<b>1,085,018</b>	<b>1,124,740</b>	<b>1,165,882</b>	<b>1,208,597</b>
Education	580,280	593,986	593,986	612,779	631,120	651,947	673,581	696,121
Public Safety	114,602	120,994	120,994	124,822	128,558	132,801	137,207	141,799
Public Works	71,939	70,358	70,358	72,584	74,757	77,224	79,786	82,456
Community Services	40,580	42,540	42,540	43,886	45,199	46,691	48,240	49,855
General Government	24,645	26,540	26,540	27,379	28,199	29,129	30,096	31,103
Legislative & Judicial	23,892	26,001	26,001	26,824	27,626	28,538	29,485	30,472
Debt Service	98,892	106,160	106,160	109,132	112,406	115,329	118,328	121,404
PAYGO/Other/Transfer/Contingency	58,235	25,725	25,725	31,369	37,153	43,082	49,159	55,388
<b>Total Expenditures</b>	<b>1,013,065</b>	<b>1,012,304</b>	<b>1,012,304</b>	<b>1,048,775</b>	<b>1,085,018</b>	<b>1,124,740</b>	<b>1,165,882</b>	<b>1,208,597</b>

*Note: expenditure projections are shown for illustration purpose and do not represent long-term fiscal plans.*